American Heritage Financial

October Update **October 2, 2017**

Record Mania:

As 2017 rounds third and heads for home, there is no question that **the year is going to be one for the record book**. With just three-quarters of the year complete, there is already a long list of records that will be remembered. Probably the most pleasant for Northeast Ohio baseball fans is the amazing 22 game win streak of the ***Cleveland Indians.*** And it wasn't just the Indians, 2017 gave us a long list of mind-boggling records in Major League Baseball; including the most home runs in a season (6,104, smashing the 5,693 record of 2000) and the Dodgers setting record streaks in both winning and losing on their home field, among many others. Yes, our topic is supposed to be financial, and like baseball, the markets have already generated a long list of records for 2017.

September closed out the third quarter with stocks knocking-in a string of records. During the first three quarters, the **Dow closed at record highs on 42 days,** including a record-setting streak of nine straight record-high days ending on August 7th. More significant, **stocks gained roughly 5% in the September quarter,** which was the eighth straight quarter of gains. Another interesting number for September is the month's 2.1% advance in the Dow. Recall the hype as the month began with headlines warning that September, historically, is the worst month of the year with an average loss of 1.1% —**so much for extrapolating past results!**

An amazing feature of the third quarter's stock market gains is that they were achieved in spite of new heights of chaos, uncertainty and dysfunction in our government, a series of disastrous storms and indications that the Federal Reserve is determined to tighten credit. The recent gains in this long bull market (second longest on record, if you are interested in records) have been driven by a new spurt of growth, both at home and abroad, as well as ever-resilient optimism that Washington may accomplish something positive relative to the Trump pro-business agenda—we are down to one of the most important "promises**," taxes.**

Looking forward to the fourth quarter, history seems to be on the side of those hoping financial nirvana will continue. According to LPL Financial, the fourth quarter is, historically, the strongest of the year. Since 1950, the S&P 500 has averaged a 3.9% gain for the quarter and the three months have been positive nearly 80% of the time. On the other hand, October owns the worst market crashes in history; recall the **15% drop in 2008** or the **24% collapse in 1987** (you will soon be reading about 30th anniversary of the ***Crash of '87***), and you may have heard something about **October 1927**. We will again refer to our September **"extrapolation"** comment as far as these historical precedents are concerned. The *"more factual"* outlook remains positive.

Based on underlying fundamentals, stocks should do well in the last quarter. Heading into hurricane season, the economy had been growing at decent clip; with second quarter real gross domestic product (GDP) recently revised up to 3.1% while the leading economic indicators have been in an uninterrupted ascent. October is earnings month for the third quarter and consensus estimates expect a rise of 6% for S&P 500 earnings, according to Barron's, while the financial magazine optimistically predicts that many companies will beat analysts' projections.

As mentioned here last month, another huge positive ingredient to the favorable financial outlook in 2017 is the revival of economic strength around the world; the ***"synchronized global economic expansion"*** as many call it. Non-U.S. stocks (measured by the MSCI All Country World ex-USA Index) are up nearly 20% year-to-date and are threatening to surpass their July 2014 peak (although still well below pre-financial-crisis highs of 2007). Foreign economies seem to have put their long list of ills behind them and momentum favors continued gains in foreign markets. The improving global economies provide new outlets for U.S. produced goods as well as new areas of opportunity for investors.

Ok, **the world is far from perfect and there are concerns**. At the top of the list is the valuation of this second longest, ever, bull market. The S&P 500 is trading about 19 times consensus 2017 earnings estimates of $131, according to Thomson Reuters. That is expensive relative to the historical average price-earnings ratio of 15. In the face of those valuations, the Federal Reserve has, very tentatively, started tightening credit conditions. If they move decisively in December (a **BIG IF**), it could have a negative impact on stocks. And, we can't ignore the continuing circus in Washington which is about to take on the gigantic, and divisive, task of mending the tax code even while the President continues to fiddle on Twitter, Rocket-Man dreams of going ballistic and Congress has yet to accomplish any of its stated goals so far in this new administration.

Those issues provide the ***"wall of worry"*** that any healthy bull market needs. Stocks should continue to work their way higher as long as there is not a major turn in U.S. and global fundamentals. Bear markets are generally only caused by recessions and evidence of a downturn in the economy is scarce. We expect the good times will continue to roll and look for more records as the fourth quarter closes out the year. (Including more record-setting for the Indians!)

Best regards,

Ted Ingraham

EGI Financial, Inc.
American Heritage Securities, Inc.

Questions or comments?
Email us at: ahs@egifinancial.com or call 330-535-0881. Visit us at www.EGIFinancial.com